

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2021-324-WS

| | | |
|--|---|-------------------------|
| IN RE: Application of Kiawah Island Utility, |) | DIRECT TESTIMONY |
| Incorporated to File Proposed Changes |) | |
| in Rates, Charges, Classifications |) | OF |
| and/or Regulations for Water and |) | |
| Sewer Service. |) | CRAIG SORENSEN |

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Craig Sorensen, P.E. My principal place of business is 1710 Woodcreek
3 Farms Road, Elgin, South Carolina 29045.

4 **Q. WHAT IS YOUR CURRENT POSITION?**

5 A. I am President for SouthWest Water Company's business in Alabama, Florida, and
6 South Carolina. I am also President at Kiawah Island Utility, Inc. ("KIU" or
7 "Company").

8 **Q. PLEASE STATE YOUR EDUCATIONAL AND PROFESSIONAL**
9 **BACKGROUND.**

10 A. I hold a Bachelor of Science degree in Mining Engineering from the University of
11 Missouri-Rolla and a Master of Business Administration degree from Samford
12 University. I am a licensed Professional Engineer in four states, including South
13 Carolina. My experience includes over 25 years in the water and wastewater industry,
14 from heavy civil construction to design engineering and large facility project
15 management to utility ownership and management.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. The purpose of my testimony is to provide an overview of KIU's request and introduce
3 the expert witnesses testifying on KIU's behalf.

4 **Q. PLEASE SUMMARIZE KIU'S REQUEST.**

5 A. In its application, KIU requested revenues of \$10,973,313 based on a 14.25% operating
6 margin. This represents an increase of \$1,355,997, or 14.10%, over KIU's pro forma
7 test year revenues. If approved, the requested percentage increase would average about
8 3.5% annually since KIU's last rate increase, less than the percentage increase in the
9 Water and Sewerage Maintenance Consumer Price Index, 15.1%¹, as published by the
10 US Bureau of Labor Statistics since the midpoint of KIU's previous test year. The
11 requested revenues represent a recovery of the Company's costs to provide service.
12 KIU is not requesting any changes to its existing miscellaneous fees or other tariff
13 provisions.

14 **Q. PLEASE DESCRIBE THE DEMOGRAPHICS OF THE COMPANY'S**
15 **SERVICE AREA AND DISCUSS THE EXPECTED LEVEL OF SERVICE**
16 **FROM KIU.**

17 A. Kiawah Island has a rich history and has grown to become one of the State of South
18 Carolina's treasures as a premier tourist destination and host of national events such as
19 the PGA Championship in 2021. The median household income for Kiawah Island

¹ <https://data.bls.gov/timeseries/CUUR0000SEHG01>

1 ranks the highest in the entire state.² At \$193,750, it compares favorably to the overall
 2 South Carolina median of \$56,227.³ The median single-family home price is nearly \$2
 3 million.⁴ While all utilities are expected to meet basic service standards, the residents
 4 of Kiawah Island generally expect the highest of service standards when it comes to
 5 their utility. In the direct testimony of Becky Dennis, she describes in detail how KIU
 6 strives to meet those high expectations.

7 **Q. WHAT IS THE EFFECT OF THE REQUESTED RATE INCREASE ON KIU'S**
 8 **AVERAGE CUSTOMER?**

9 A. A summary of the bill impacts for residential customers with a 5/8" meter using either
 10 3,000 gallons per month or 11,000 gallons per month is shown below.

| Monthly Bill for Residential Customer using 3,000 Gallons | | | |
|---|-------------------|----------------|------------------|
| <u>Class</u> | <u>Meter Size</u> | <u>Current</u> | <u>Requested</u> |
| Water | 5/8" | \$51.14 | \$57.45 |
| Sewer | 5/8" | \$30.22 | \$33.15 |
| Combined | | \$81.36 | \$90.60 |

| Monthly Bill for Residential Customer using 11,000 Gallons | | | |
|--|-------------------|-----------------|------------------|
| <u>Class</u> | <u>Meter Size</u> | <u>Current</u> | <u>Requested</u> |
| Water | 5/8" | \$89.78 | \$98.09 |
| Sewer | 5/8" | \$36.14 | \$39.63 |
| Combined | | \$125.92 | \$137.72 |

²https://datacommons.org/place/geoId/4538162?utm_medium=explore&mprop=income&popt=Person&cpv=age%2CYears15Onwards&hl=en

³ <https://data.census.gov/cedsci/profile?g=1600000US4538162>

⁴ https://issuu.com/kiawahisland/docs/kire_forecast_q3_2021_issuu?fr=sYjZmMDQwNjM3MTc

Q. WHY IS KIU'S REQUESTED OPERATING MARGIN APPROPRIATE?

A. KIU's requested operating margin of 14.25% is justified by our quality of service and operations, and it is well within the range of operating margins recently granted by the Commission. For instance, since granting 14.25% to KIU in its last rate case, the Commission has recently approved the following explicit and resulting operating margins for other water and wastewater utilities:

| Order No. | Utility | Granted Operating Margin |
|-----------|---------------------------------------|--------------------------|
| 2019-288 | Kiawah Island Utility, Inc. | 14.25% |
| 2019-314 | Palmetto Wastewater Reclamation, Inc. | 14.56% |
| 2020-94 | CUC, Inc. | 12.51% |
| 2020-306 | Blue Granite Water Service Company | 10.54% |
| 2020-561 | Palmetto Utilities, Inc. | 16.48% |
| 2021-814 | Palmetto Wastewater Reclamation, Inc. | 13.23% |

Q. ARE KIU'S REQUESTED RATES JUSTIFIED? PLEASE EXPLAIN.

A. Yes. KIU's rates were last approved nearly three years ago, on April 25, 2019, based on a 2017 test year that is now over four years old. Since that time, KIU has made significant investments and incurred various cost increases. The proposed rate increase is necessary for KIU to continue providing reasonable and adequate service to its customers, cover its expenses, attract capital for future improvements, and comply with the standards and regulations set by the South Carolina Department of Health and Environmental Control ("DHEC") and other environmental regulatory authorities.

Q. HAS KIU COMMISSIONED A COST OF SERVICE STUDY TO SUPPORT ITS PROPOSED RATE DESIGN?

A. Yes. The settlement agreement approved by the Commission in KIU's most recent general rate case included a commitment from the Company that it would "confer with

1 ORS to determine whether a cost of service study should be conducted before KIU's
2 next rate case." KIU conferred with ORS, which strongly recommended that a cost of
3 service study be performed. KIU commissioned the study from Mr. Charles Loy of
4 GDS Associates, who provides direct testimony in this case regarding said study and
5 the resulting rate design.

6 **Q. PLEASE INTRODUCE THE OTHER WITNESSES TESTIFYING ON**
7 **BEHALF OF KIU.**

8 A. Mr. Donald H. Burkett, CPA, testifies regarding the financial schedules filed in the
9 Company's application. Mr. Mujeeb Hafeez testifies regarding the overhead and
10 shared costs and the allocation thereof to KIU. Ms. Becky Dennis testifies regarding
11 the Company's operations and customer service record. The Company also may call
12 additional witnesses in its rebuttal testimony.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes, it does.